

Tennessee Housing Market Brief

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As of this date (February 15), fourth-quarter data for home sales (National Association of Realtors), personal income (Bureau of Economic Analysis), and past-due mortgages (Mortgage Bankers Association) are not available. This report will be updated as these figures become available.

Economic Overview

The Tennessee economy drifted during the fourth quarter. Job growth, as measured by the increase in payroll employment, increased at about the same modest rate (0.8 percent over the year) as in the previous quarter. Employment losses in manufacturing and professional and business services were offset by gains in construction, information, and leisure and hospitality. The slow rate of job growth was not sufficient to absorb new entrants to the labor force, causing the unemployment rate to rise to 4.9 percent from 4.3 percent in the third quarter, after seasonal adjustments. Initial claims for unemployment insurance are 20 percent higher over the year, but this does not necessarily signal the beginning of a significant downturn, as claims for December actually are lower than last year. The bottom line is that the housing market has slowed the rate of job growth for the Tennessee economy but has not produced any sharp job losses that typically foretell a significant downturn.

Housing Construction

Seasonally adjusted permits issued for single-family home construction in Tennessee drifted lower in the fourth quarter to an annual rate of 27,000 units (Table 1), showing little

Table 1. Permits issued for single-family housing, seasonally adjusted annual rate (thousands)

Quarter	Tennessee	South	U.S.
2006.3	35.7	676.0	1,273.0
2006.4	36.8	629.0	1,167.7
2007.1	32.9	578.0	1,119.0
2007.2	30.5	531.3	1,052.3
2007.3	27.3	478.7	939.7
2007.4	27.0	389.3	809.0
Change from previous quarter	-1.3%	-18.7%	-13.9%
Change from previous year	-26.7%	-38.1%	-30.7%

Source: Census Bureau

change from the third quarter. While stability is welcome at this point, it may prove to be temporary. After all, single-family permits experienced a similar respite in the fourth quarter of 2006 but then reverted to the path of declines (Figure 1).

Housing construction continues to fall sharply in the South and in the United States (Table 2); single-family permits are down 18.7 percent from 2007.3 in the South and 13.9 percent lower for the United States. Over the year, the South is down 38.1 percent and the United States is 30.7 percent lower, compared with a 26.7 percent decline for Tennessee.

Preliminary year-end figures for 2007 show Tennessee total permits (single-family plus multi-family) 21.2 percent lower than in 2006 and single-family permits 27.6 percent lower. As shown in Figure 1, the housing construction decline hit Tennessee two quarters later than nationally. The past year

Figure 1. Trend of single-family permits (thousands), Tennessee and U.S. (seasonally adjusted annual rate)

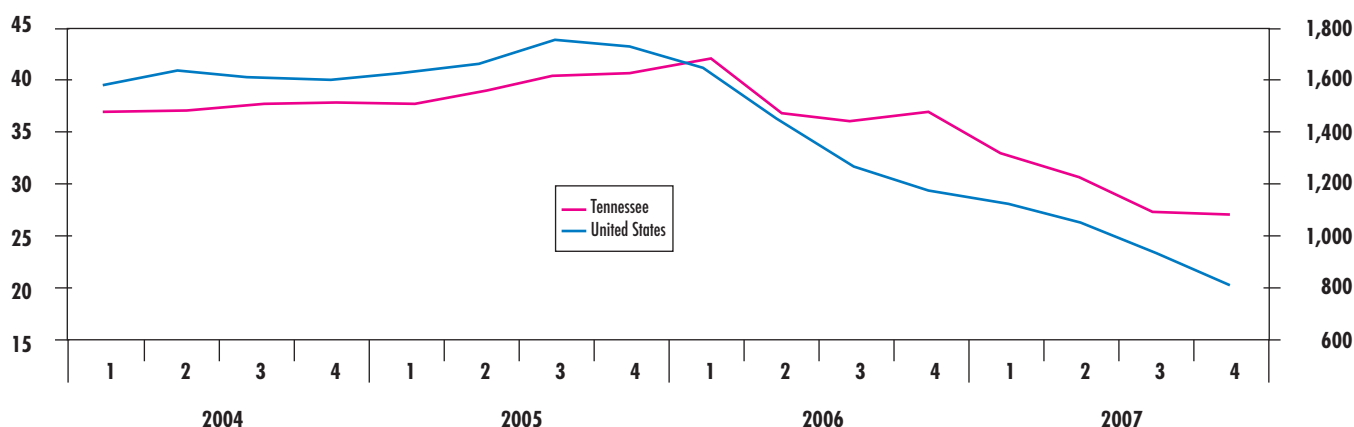


Table 2. Annual total housing construction, 2005–2007

	2005	2006	2007	Percent change	
				2005–06	2006–07
Total units					
Tennessee	46,615	46,003	36,248	-1.30%	-21.20%
South	1,039,044	929,734	676,986	-10.50%	-27.20%
U.S.	2,155,316	1,838,903	1,380,470	-14.70%	-24.90%
Single-family units					
Tennessee	40,174	39,196	28,366	-2.40%	-27.60%
South	826,793	726,200	497,503	-12.20%	-31.50%
U.S.	1,681,986	1,378,220	973,262	-18.10%	-29.40%

Source: Census Bureau

Table 3. Foreclosures filed fourth quarter 2007

	Properties with filings 2007.4	Growth from previous quarter (%)	Growth from previous year (%)
Tennessee	8,763	-0.1	20.5
South	174,374	3.8	183.7
U.S.	527,740	1.1	85.8

Source: RealtyTrac and BERC calculations

witnessed much more of a negative impact for Tennessee compared with 2006, with the rate of decline approaching the U.S. average but still less than that for the South.¹

The magnitude of the housing construction boom and bust in the South is very concentrated in just a few states. For example, 84 percent of the decline in housing construction in the South over the previous two years (2005–2007) occurred in just three states: Florida, Georgia, and Virginia. Sixty-two percent of the decline during this period occurred in Florida alone.

Foreclosures

Fourth-quarter figures from RealtyTrac show a large (20 percent) over-the-year rise in the number of foreclosures in Tennessee; by comparison, the U.S. jumped 85 percent and the South 183.7 percent (Table 3). These year-to-year increases are distressing, but one is somewhat relieved to find the fourth quarter actually shows little change from the previous quarter. Unless significant seasonal influences are at work, the number of foreclosures appears to have stabilized, at least temporarily.

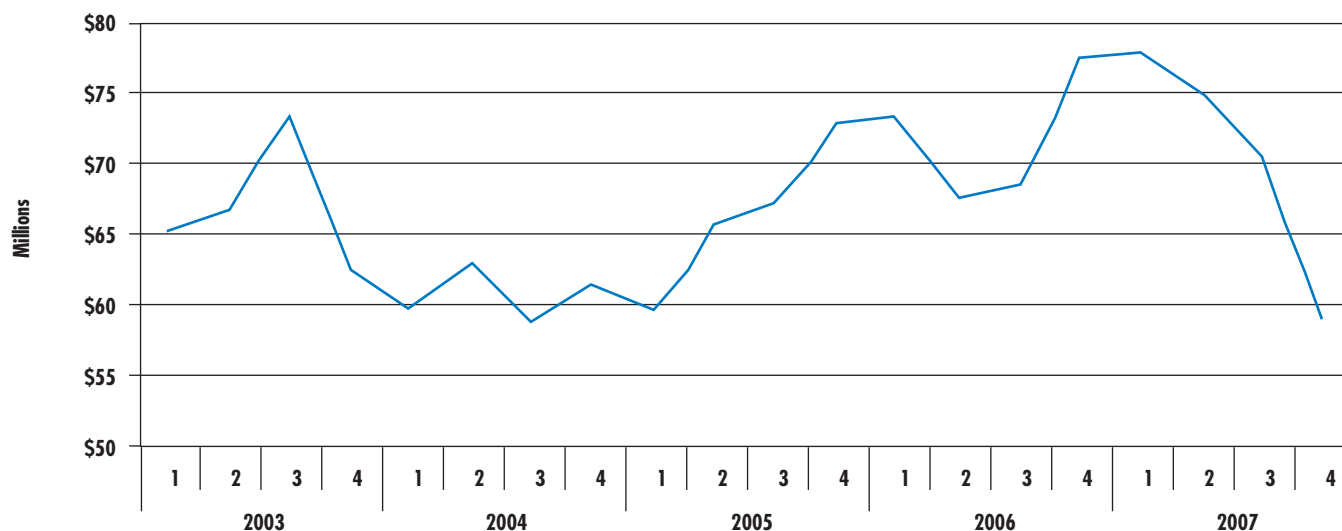
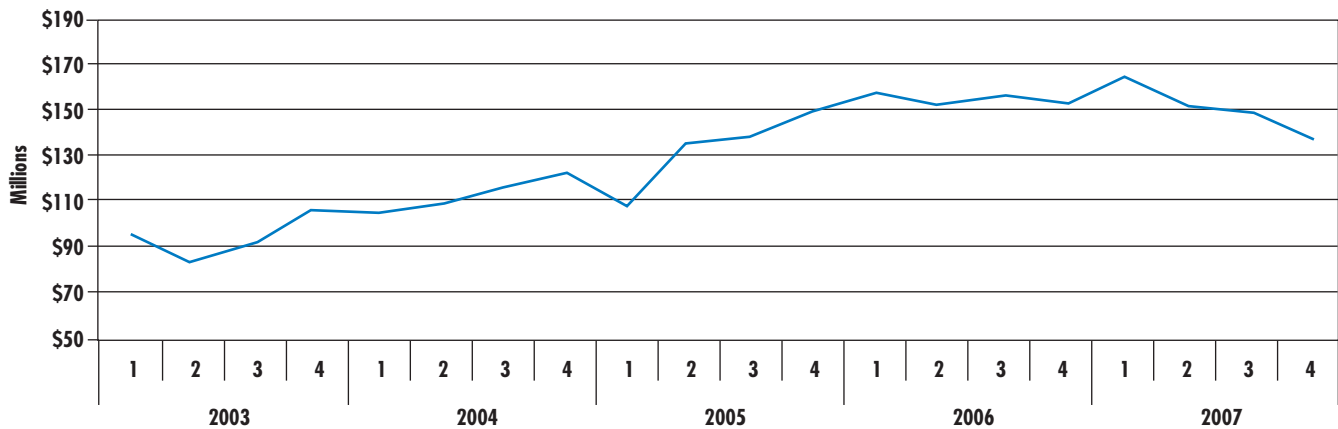
Figure 3. Mortgage tax collections (seasonally adjusted annual rate)

Figure 4. Real estate transfer tax collections (seasonally adjusted annual rate)**Real Estate Transactions and Mortgages**

Mortgage tax collections dropped sharply in the fourth quarter, indicating a precipitous decline in new borrowing. As shown in Figure 3, mortgage tax collections plummeted 16.3 percent from the third quarter and are 24.1 percent lower over the year. More recently, lower mortgage rates experienced in the current quarter (2008.1) may help stem the rate of decline in mortgage tax collections as homeowners refinance to take advantage of lower borrowing rates.²

Real estate transfer tax collections also fell sharply, as indicated in Figure 4, falling 8.8 percent from the previous quarter, indicating fewer deals are occurring between buyers

and sellers. Part of the decline can be attributed to increased standards on the part of mortgage lenders, and perhaps part is also due to a decline in confidence among borrowers.

Consistent with falling real estate transfer collections, the number of homes sold (closings) continues to fall in the Nashville, Memphis, and Knoxville market areas (as shown in Figures 5–7). Encouraging news is that inventories of homes on the market appear to have peaked in Nashville and Memphis and are growing more slowly in Knoxville. Over time, stable inventories will help to reduce downward pressure on home prices, bringing more sellers and builders into the market.

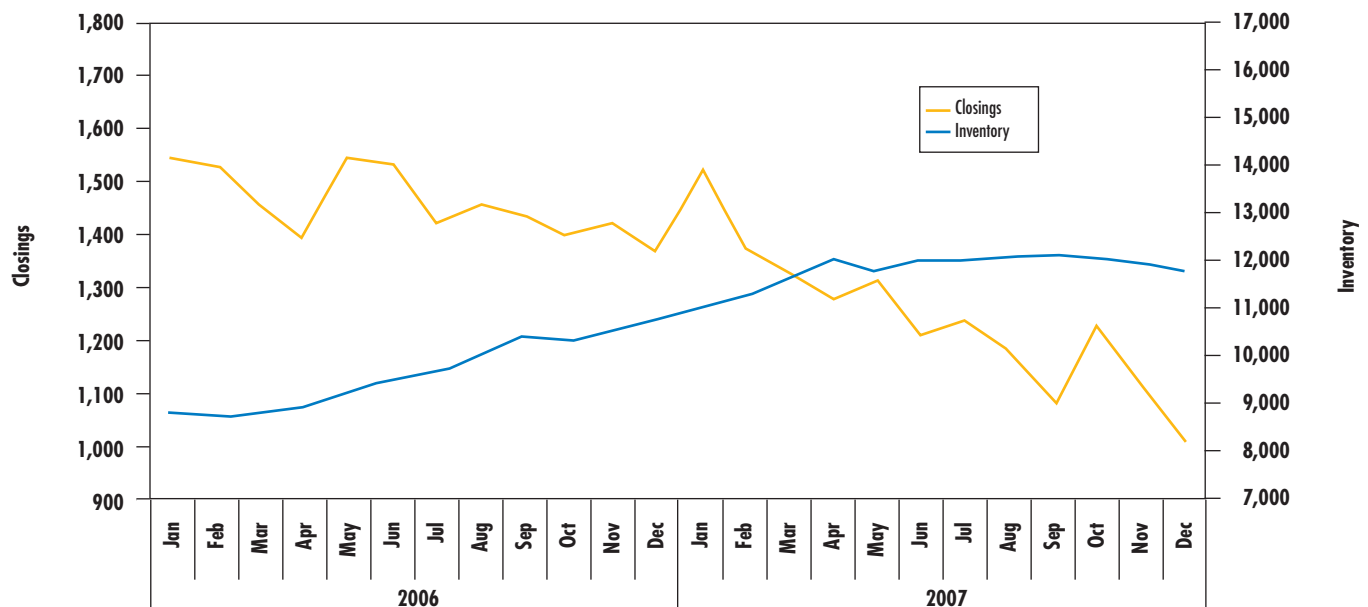
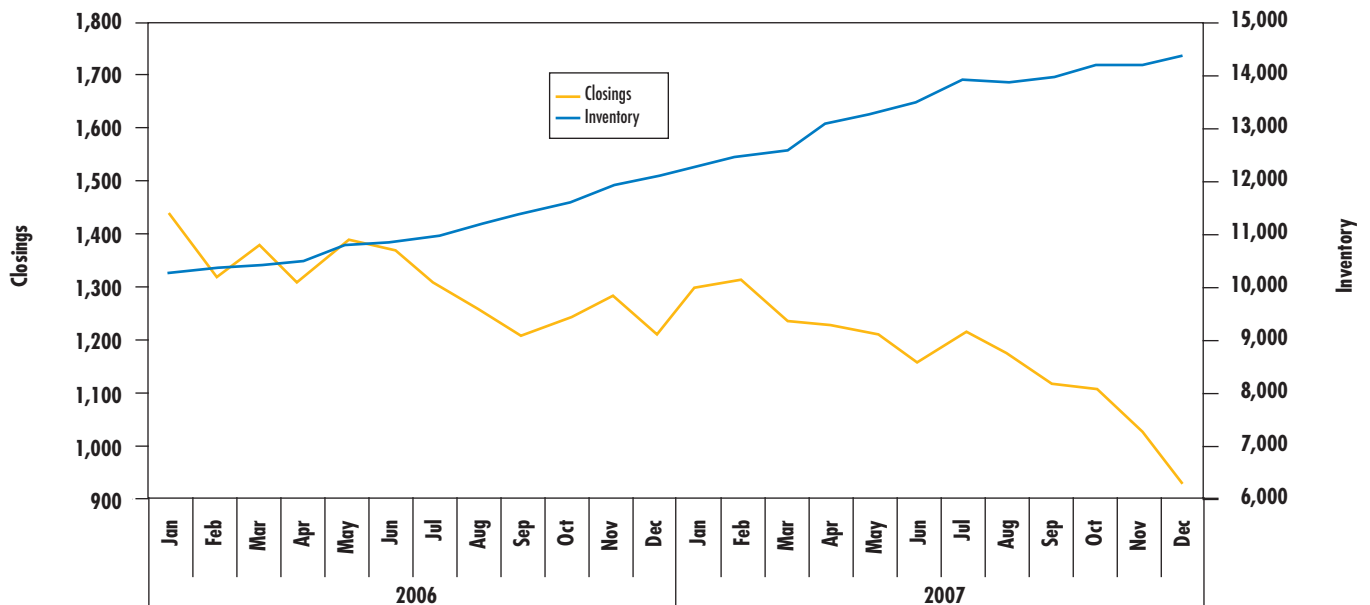
Figure 5. Memphis area single-family closings and inventory (seasonally adjusted)

Figure 6. Knoxville area single-family closings and inventory (seasonally adjusted)**Conclusion**

Housing construction in Tennessee nearly stabilized in the fourth quarter, but this may be temporary. New borrowing and real estate transactions fell sharply in the quarter due to higher lending standards and falling consumer confidence. Inventories of homes for sale in the two largest markets are steady, suggesting inventories should begin to decrease during the coming months, thus shoring up home prices. ■

Notes

1. The South includes 16 states (Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia) and the District of Columbia.

2. Jenny Burns, "Falling rates Spark Loan growth," *Nashville Business Journal*, February 1–7, 2008.

Figure 7. Nashville area residential closings and inventory, seasonally adjusted